

**MINUTES OF MEETING OF BOARD OF TRUSTEES OF THE
CITY OF NEWPORT NEWS EMPLOYEES' RETIREMENT FUND**

November 20, 2014

City Council's Conference Room/Tenth Floor

9:00 a.m.

Roll Call: JoAnn Armstrong (E), Bill Eastburn (X), Art Gudikunst (X),
Philip Hatchett (X), Frank James (E), Zoe Lumpkin (X), Bobby Lanier (X),
Robert Lee (X), Richard Wuska (X).

Rich Caplan (X), Marty Eubank (E), Bill Keeler (X),
Cathy Matthews (X), Tonya O'Connell (E), Tom Mitchell (X).

Others present: Kimberly Jackson, Benefits Manager
Rich Elofson, Member of the Investment Committee
Pax Goodson, Member of the Investment Committee
Richard Dahab - Telephonic conversation
Robert Goodman, Jr., Kaufman and Canoles
Retirees (3)

1. Call to Order.

Mr. Hatchett called the Retirement Board meeting to order at 9:05 a.m. on November 20, 2014 in the City Council's Conference Room, 10th Floor.

Mr. Mitchell introduced the newly elected Retirement Board member, Ms. Lumpkin, who will be the General Election representative for full time employees. Her term will end December 31, 2015.

2. Minutes of the Meeting of October 30, 2014:

The minutes were approved as submitted.

3. Committee on Investments:

a. Assets as of October 30, 2014:

| | |
|-----------------|----------------------|
| Pension | \$835,231,469 |
| Post Retirement | <u>25,392,493</u> |
| Total | <u>\$860,623,962</u> |

b. Asset Allocation Review:

Mr. Gudikunst informed the Board that the Committee continued their discussion about the process of reducing certain asset classes and increasing new ones to move toward the agreed upon new asset allocation. The first goal of the Committee was to determine what percentage of active versus passive management they wanted in Large Cap, Mid Cap, and Small Cap. They decided to have a split of 40% active and 60% passive in large cap, a split of 50% active and 50% passive in mid cap, and a split of 60% active and 40% passive in small cap.

The second goal was to determine where to draw money from and to to help achieve the new asset allocation and the active and passive splits. The Committee recommended moving \$21 million total out of all the small cap active managers, leaving each manager approximately \$21 million in equity, and into the small cap index fund. A second recommendation was made to take \$20 million of the short term cash to help fund the newly hired mid cap active managers. After further discussion the Committee asked Steve, from Dahab Associates, to come back to the December Committee meeting with recommendations in the large cap class of where to draw the money from to help achieve the 40-60% split and to help fund the mid cap active managers.

The Board took no action on this item.

c. Actuary Presentation:

Mr. Mitchell updated the Board and others on the actuary's presentation. The City's contribution rate is 86% exceeding its projected contribution of 82% for the year. Asset returns as of fiscal year 2014 was 14.4% based upon the market value and 10.3% based upon the actuarial value which resulted in an actuarial gain of \$20.1 million. Both returns were well in excess of the assumed rate of return of 7.5%. Mr. Mitchell reminded members that the Plan contributions will be 100% of the actuarially required contributions by fiscal year 2017.

The Board was informed of the actuary's findings that the Fund could not afford a Cost of Living Adjustment (COLA) increase from 0.7% to 1.7% at this time which would result in an increase of the unfunded actuarial liability of approximately \$111 million. Staff was requested to write a letter to retiree Thomas Murphy notifying him of the Board's decision.

Approved Upon motion duly made and seconded, the Board unanimously agreed to request staff to write a letter to Mr. Murphy notifying him of the Board's decision to not increase the COLA, at this time, due to the financial impact to the Fund.

d. Private Equity Managers

Closed Session to discuss the performance of one or more NNERF asset managers

A motion was made by the Vice Chairman of the Newport News Employees' Retirement Fund, which was duly seconded and unanimously approved, that pursuant to Section 2.2-3711A of the Code of Virginia, 1950, as amended, subsections (3), (6) and (7), that the Retirement Board hold a Closed Meeting on the subject of the NNERF investments and for the purpose of considering the sale of real property held by the NNERF, and also a potential investment in two limited partnerships. The closed meeting is authorized under:

Subsection (3) discussion or consideration of the acquisition of real property for a public purpose, or of the disposition of publicly held real property, where discussion in an open meeting would adversely affect the bargaining position or negotiating strategy of the public body.

Subsection (6) discussion or consideration of the investment of public funds where competition or bargaining is involved, where, if made public initially, the financial interest of the governmental unit would be adversely affected.

Subsection (7) consultation with legal counsel regarding specific legal matters requiring the provision of legal advice by such counsel.

After coming back into open session, the Vice Chairman of the Newport News Employees' Retirement Fund moved, which was duly seconded and unanimously approved, that the members of the Retirement Board certify that, to the best of each member's knowledge (1) only public business matters lawfully exempted from the open meeting requirements of the Virginia Freedom of Information Act were discussed during the closed meeting held immediately prior to reconvening in this open meeting, and (2) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered in the aforementioned closed meeting of the Retirement Board.

Approved *Upon motion duly made and seconded, the Board unanimously agreed to contract with Blackrock Investment Management LLC, Option #1, and to fund up to \$25 million, subject to acceptable contract language (for the subscription agreement) which shall be negotiated by the City Attorney's Office and outside counsel.*

Approved *Upon motion duly made and seconded, the Board unanimously agreed to contract with Landmark Partners XV LLC, and to fund up to \$25 million, subject to acceptable contract language (for the subscription agreement) which shall be negotiated by the City Attorney's Office and outside counsel.*

A discussion ensued regarding the withdrawal of funds to help fund the Private Equity managers. The Board agreed, based on recommendations from Rich Dahab, that \$40 million be liquidated from large cap funds.

Approved *Upon motion duly made and seconded, the Board unanimously agreed to withdraw \$40 million from the large cap funds in order to fund the private equity investments.*

e. Determination Letter - IRS

Mr. Mitchell mentioned that the Determination Letter qualification was contingent upon changes to Ordinances Sec. 31-61 (f), and Sec. 31-64 (c).

f. Revised Ordinances

The Board was presented draft copies of the proposed amendments to Sec. 31-61, and Sec. 31-64 for review and discussion. It was agreed that the Sections be amended to reflect the recommended changes by the City Attorney's Office and outside counsel. It was noted that there would be no change in members' benefits.

Approved *Upon motion duly made and seconded, the Board unanimously agreed to recommend the changes to Ordinance Sec. 31-61(f) Nonoccupational employee death benefits, and Sec. 31-64(c) Eligible rollover distributions as requested by the City Attorney's Office and outside counsel.*

The Board was also presented with copies of the proposed amendments to Ordinance Sec. 31-54 and a new Sec. 31-64.1 which moved a portion of Sec. 31-54 into new Sec. 31-64.1 and made certain technical changes to reflect existing practice (which do not affect members' benefits).

Approved *Upon motion duly made and seconded, the Board unanimously agreed to recommend the changes to Ordinance Sec. 31-54 Retirement allowances and 31.64.1 Limitations on benefits, as requested by the City Attorney's Office and outside counsel.*

4. Committee on Administration:

a. Tablets for Members

The Committee is still working to provide tablets or laptops to the Members for 2015.

5. Disability Review Committee:

a. Case #3364:

The Committee reviewed Case #3364. It was the opinion of Dr. Lee that Case #3364 is not able to perform the required/essential functions of the job and such restrictions are considered permanent. Dr. Lee provided a whole body permanent partial impairment rating of 60%. The Committee unanimously recommended an award of 60% disability based on Section 31-57 Nonoccupational disability retirement for partial disability.

Approved *Upon motion duly made and seconded, the Board unanimously agreed to award in Case 3364, 60% partial disability based on Section 31-58 Occupational and nonoccupational partial disability benefits.*

6. Benefits & Welfare Committee:

No report.

7. Old Business:

a. Elections

a. General Employees' Representative

The ballot count was completed for the election of the General Employee representative on the Retirement Board. Zoe Lumpkin won the election, receiving 91% of the votes counted. Michael Allen, the other candidate, received 6% of the votes and Chad Pritchett and Jackie Kassel, who were write-in candidates, received 3% of the votes counted. Zoe and Michael have been notified of the results. A request was sent to notify General Employees of the results.

b. Public Utilities' Representative

Applications for the Public Utilities' representative are due by November 24, 2014.

8. New Business:

a. Terms – Retirement Board/Investment Committee

He also introduced Mr. Goodson who will replace Mr. Hatchett on the Retirement Board on January 1, 2015 if he is appointed by Council.

b. Excused Absence from Board Meeting

Mr. Eubank, Ms. Armstrong, and Ms. O'Connell asked to be excused due to a prior commitment.

c. Next Meeting

December Board meeting will be **Thursday, December 18, 2014.**

9. Adjournment:

There being no further business to come before the Board, the meeting adjourned at 11:30 a.m.

A true copy, attest:



Tom Mitchell, Secretary
Board of Trustees